

## Message Text

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15  
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04

NSAE-00 SIL-01 OMB-01 SS-15 SP-02 NSC-05 PA-01

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FM AMEMBASSY ROME  
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DIA  
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AMCONSUL MILAN  
AMCONSUL NAPLES  
USCINCEUR VAIHINGEN, GERMANY  
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USDOCOSOUTH FOR INTAF

E.O. 11652: NA  
TAGS: PINT, ELAB, PINR, IT, EFIN  
SUBJECT: LABOR AND MANAGEMENT START TALKING TODAY ABOUT HOW TO  
LOWER LABOR COSTS

REF: ROME 18565

1. SUMMARY. LABOR (CCU) AND MANAGEMENT (CONFINDUSTRIA) BEGAN  
HIGH LEVEL NEGOTIATIONS NOVEMBER 17 ON HOW TO REDUCE ITALY'S  
EXTRA-ORDINARILY HIGH LABOR COSTS. PRIME MINISTER ANDREOTTI HAS  
WELCOMED THESE TALKS AND WILL WAIT A MONTH FOR RESULTS BEFORE  
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FINALIZING HIS AUSTERITY MEASURES, PARTICULARLY THE PARTIAL

TWO-YEAR FREEZE ON COST-OF-LIVING INCREASES AND A VALUE ADDED (IVA) TAX INCREASE TO FINANCE GOVERNMENT ASSUMPTION ("FISCALIZATION") OF PART OF INDUSTRY'S SOCIAL SECURITY CONTRIBUTION BURDEN. DESPITE CONSIDERABLE RELUCTANCE, INTERNAL DIFFERENCES, GRUMBLING AND CRITICISM OF SHORTCOMINGS AND UNCERTAINTIES IN THE GOVERNMENT'S PLANS, LABOR HAS INDICATED WILLINGNESS TO MAKE SUBSTANTIAL CONCESSIONS TO HELP SAVE ITALY FROM ITS CURRENT CRISIS. PRELIMINARY, TECHNICAL LEVEL CCU-CONFINDUSTRIA TALKS ALSO GAVE GROUNDS FOR HOPE THAT AGREEMENT ON COST REDUCING MEASURES WILL BE REACHED. END SUMMARY

2. THE UNIONS (CCU) AND MAJOR PRIVATE INDUSTRY EMPLOYER ASSOCIATION (CONFINDUSTRIA) BEGAN FORMAL HIGH-LEVEL TALKS NOVEMBER 17 ON LABOR COST REDUCTION. SIMILAR TALKS BETWEEN CCU AND THE PUBLIC SECTOR INDUSTRY ASSOCIATION (INTERSIND) BEGIN NOVEMBER 18. REPORTS ON PREVIOUS INFORMAL TECHNICAL-LEVEL DISCUSSIONS BETWEEN CCU AND CONFINDUSTRIA AND THE RECENT CCU DECLARATION (REFTTEL) INDICATE THAT AGREEMENT MAY BE REACHED ON MANY COST-REDUCING MEASURES, PARTICULARLY AS TO EFFECTIVE USE OF SEVEN TEMPORARILY "SUPPRESSED" MID-WEEK HOLIDAYS, FLEXIBLE SCHEDULING OF VACATIONS AND WORK HOURS TO ALLOW GREATER PLANT UTILIZATION, LABOR MOBILITY, SEVERANCE PAY AND STEP INCREASE MECHANISMS. THE UNION CONFEDERATIONS HAVE ALSO INDICATED WILLINGNESS TO ASK THEIR COMPONENT UNIONS TO LIMIT WAGE DEMANDS IN INDIVIDUAL PLANT OR COMPANY NEGOTIATIONS TO MINIMAL AMOUNTS NEEDED TO GENERALIZE ANY INCREASES MANAGEMENT GRANTS TO SHZCIAL GROUPS.

3. A MORE TICKLISH SUBJECT IS THAT OF ITALY'S GENERAL WAGE AND SALARY "ESCALATOR" (OR INDEXATION) SYSTEM. DESPITE INSISTENCE THAT, IN GENERAL, THE EXCALATOR "MUST NOT BE TOUCHED", THE UNIONS HAVE EXPRESSED WILLINGNESS TO MAKE THE SYSTEM UNIFORM BY ELIMINATING SPECIAL PROVISIONS GIVING CERTAIN CATEGORIES (E.G. CHEMICAL, TRANSPORT AND ESPECIALLY BANK WORKERS) MUCH LARGER INCREASES, AND TO MODIFY SOME SECONDARY EFFECTS, SUCH AS ON STEP INCREASES. THERE HAVE ALSO BEEN HINTS THAT SOME CHANGES IN THE COMPOSITION OF THE "BASKET" OF PRODUCTS ON WHICH THE INDEX IS BASED MIGHT BE NEGOTIATED, AS WELL AS A STRETCH-OUT OF THE INTERVAL BETWEEN INCREASES FROM THREE TO SIX MONTHS.

4. PRIME MINISTER ANDREOTTI HAS INDICATED HE WILL WAIT A MONTH LIMITED OFFICIAL USE

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BEFORE PUTTING HIS AUSTERITY PLANS IN FINAL FORM, PARTICULARLY THE COST-OF-LIVING INCREASE FREEZE DECREE WHICH WILL NEED FINAL PARLIAVNTARY ENACTMENT AT THAT TIME, AND THE EXTENT OF "FISCALIZATION" OF PRIVATE INDUSTRY'S SOCIAL SECURITY CONTRIBUTIONS AND OF THE VALUE-ADDED TAX (IVA) INCREASES NEEDED TO FINANCE IT. PARTIALLY IN RESPONSE TO A CGIL PROPOSAL TO FREEZE ALL WAGE AND SALARY INCREASES ABOVE EIGHT MILLION LIRE PER YEAR INSTEAD OF FOCUSING THE FREEZE ON THE ESCALATOR, ANDREOTTI HAS INDICATED

THAT THE FREEZE WILL AFFECT OTHER INCREASES BEYOND THOSE OF THE ESCALATOR. UNION REACTIONS HAVE BEEN MIXED, BUT MOSTLY NEGATIVE.

5. VARIOUS UNION LEADERS HAVE PROTESTED THAT ONE MONTH IS TOO SOON FOR CCU- CONFINDUSTRIA AGREEMENT ON LABOR COST REDUCTION, PARTICULARLY IN COMPLICATED AREAS LIKE STEP INCREASES AND SEVERANCE PAY, ON WHICH THE J N K AND FILE WILL HAVE TO BE CONSULTED. REPORTEDLY, THE FINAL CCU MEETING NOVEMBER 16, TO PREPARE FOR CONFINDUSTRIA TALKS NOVEMBER 17, DECIDED TO ASK ANDREOTTI FOR A NEW MEETING TO ASK HIM 1) TO WITHDRAW THE FREEZE LEGISLATION, 2) TO CLARIFY JUST HOW MUCH LIQUIDITY IT INTENDS TO WITHDRAW FROM CONSUMER DEMAND AND 3) TO PROCEED WITH GOVERNMENT SALARY NEGOTIATIONS.

6. COMMENT. THIS LATEST REQUEST TO ANDREOTTI APPEARS TO BE ONE LAST PROTEST GESTURE BEFORE THE UNIONS GET DOWN TO THE UNPLEASANT BUSINESS OF NEGOTIATING REDUCTION OF BENEFITS. PROSPECTS FOR AGREEMENT ON MANY COST-SAVING ITEMS SEEM GOOD, IN VIEW OF THE GRAVITY OF ITALY'S FINANCIAL SITUATION AND THE INTEREST OF CGIL'S COMMUNIST MAJORITY AND CISL'S AND UIL'S MODERATE MINORITIES TO HELP THE GOVERNMENT SURMOUNT IT. GETTING THE RANK-AND-FILE AND LOW-LEVEL LEADERSHIP TO GO ALONG MAY BE MORE DIFFICULT PARTICULARLY IN THOSE CATEGORIES OR INDUSTRIES MOST AFFECTED BY PARTICULAR MEASURES. BEAUDRY

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## Message Attributes

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